

FINANCIALISATION AS THE CORE PROBLEM FOR A “SOCIAL EUROPE”

LA FINANCIARIZACIÓN COMO PROBLEMA FUNDAMENTAL EN LA CONSTRUCCIÓN DE UNA “EUROPA SOCIAL”

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ABSTRACT

For more than three decades, increasing financialisation has been a core feature of the European economy. This process does not only lead to economic instability, but also to social inequality. A driving force of financialisation in Europe are the internal market institutions of the European Union, aggravated through the introduction of the Euro and the programmes for rescuing the common currency. The European Union, principally, should be the most suitable institution to limit financialisation in favour of a more social Europe, given that it is often considered to be a shield against the harsh winds of globalisation. However, both the legal foundations as well as the political power relations within the Union are more likely to rather pave the way towards a deepening of financialisation and social inequality.

Keywords: Financialization; European Union; Social Europe; Crisis.

RESUMEN

Durante más de tres décadas, la profundización del proceso de financiarización ha constituido un elemento nuclear de la economía europea. Dicho proceso no solo ha generado inestabilidad económica, sino también desigualdad social. En Europa uno de los motores de dicha financiarización ha sido el funcionamiento de las propias instituciones de la Unión Europea, agravado por la introducción del euro y por la aplicación de los programas de rescate de la moneda común. Dado que suele ser considerada como un escudo contra algunas de las consecuencias más negativas de la globalización, la Unión Europea debería constituirse en la institución preeminente a la hora de limitar el proceso de financiarización, al objeto de favorecer una Europa más social. No obstante, tanto los fundamentos que la constituyen, como las relaciones de poder que operan dentro de la Unión, hacen que sea más probable que ésta se limite a facilitar el camino para una profundización tanto de la financiarización como de la desigualdad social.

Palabras clave: Financiarización; Unión Europea; Europa social; Crisis.



¹In current debates about the European Union and its crises, the defenders of the Union – particularly social democrats and major labour unions such as the German IG Metall and the European Trade Union Federation – place great emphasis on the notion that the EU serves as an important social protection against the unwelcome features of economic globalisation. In devising the notion of a “Social Europe”, it is argued that the European Union is able to make important contributions to ameliorating the high degrees of inequality and poverty that exist in Europe (Grozelier *et al.* 2010, Social Europe 2015, Kern 2016). Thus, the notion of a “Social Europe” is generally conceived much broader than the EU’s social policies - which are very limited anyway - and rather refers to the combined effects of various EU policies in order to protect European citizens against the harsh winds of globalisation (Dannreuther 2014).

Financialisation can be considered as an especially aggressive form of economic globalisation. In comparison to markets for physical goods, both the volume and the speed of transnational financial movements are much higher. This not only leads to a higher degree of volatility and frequent crises, but also implies a powerful position for the owners of financial assets. The ownership of these assets very often is strongly concentrated, thereby aggravating the challenges arising from a concentration of economic power and from the instability of financial sector companies. Correspondingly, the way the European Union deals with financialisation is an ideal test case in order to check whether the notion of “Social Europe” has some substance, in that it can indeed offer some form of social protection against the most immediate results of financialisation, or rather serves as a loose slogan for defending the institution against the growing number of grievances by people suffering from the socially adverse effects of globalisation.

In order to answer this question, we need to deal with a variety of interrelated issues, some of which are also taken up in more detail in other contributions to this special section. First, we need to define what financialisation actually is (section 1) and how extensive this phenomenon has become in Europe (section 2). Second, we need to clarify in how far and in what ways financialisation leads to economic inequality (section 3) as well as to financial crises and their disastrous effects for the poor (section 4). Third, we need to study the political pathways leading to financialization (section 5), in order to be able to devise

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options for reversing this process, given its negative social consequences (section 6). With regard to the latter two questions, the role of the European Union both in strengthening and in potentially overcoming financialization is particularly important for our purposes. After finding answers to this set of questions, we can finally return to the overall question whether the European Union – referred to as a “Social Europe” – provides protection against financialization, or whether the European Union rather actively contributes to the financialisation process and the related problems (section 7).

Given the many questions we need to deal with in order to establish whether the claim of a “Social Europe” is valid for the case of financial globalisation, this article is unable to go into depth with regard to a specific definitional, theoretical or empirical discussion of financialisation, in contrast to the other contributions to this special issue. Its purpose is rather to connect a number of existing scholarly contributions on financialisation and on financial sector governance in a way that enables us to answer the above question – a question that has become very prominent in the recent political debate about the fundamental crisis of the European Union.

1. FINANCIALISATION AND ITS VARIOUS FACES

Since the 2008 financial crisis the process of financialisation has become much more prominent, as well as ambivalent, in public perception. In a simple and superficial way, we can define financialisation based on Epstein (Epstein, 2005: 1) as the increasing importance of financial motives, financial institutions and financial elites in the functioning of the economy. As indicated by this very broad and general definition, financialisation is a complex process with many faces. Empirically, these faces most prominently include (a) a reordering of the productive sector, (b) a restructuring of the financial sector, (c) a modification of economic statecraft and (d) the incorporation of private households into the financial sector. In order to establish whether the European Union has been able to deliver on the notion of a “Social Europe”, we need to highlight the breadth of the process, not only focus on a specific realm.

Ad (a): For a couple of decades now, many workers have become familiar with some aspects of financialisation under catchphrases such as the rise of “shareholder value” (Höpner, 2003). Attempts by shareholders and management to cream off an increasing share of company profits are an important part of financialisation. Typical instruments include share options, bonus payments, or share buyback programmes, but also the restructuring of companies driven by demands from private equity and activist hedge funds, or via hostile takeovers. This “financial market capitalism” (Windolf, 2005) is supported by the accumulation of capital in investment funds and through information processing by analysts and rating agencies.

However, the process of financialisation is much broader than implied in these early discussions on shareholder value and financial market capitalism.

First, the focus on finance-based profits has become much broader even within companies of the productive sector. This includes in particular the tendency to increase profits through financial market activities, e.g. through highly profitable financial services companies such as Volkswagen Financial Services, or through financial market speculation, as for example Porsche during the management of Wiedeking and Härter. In contrast to earlier discussions on financial market capitalism, where the enforcement of the interest of financial capital was based on the instrumental power of specific actors such as pension funds, financialisation implies a much broader and – in spite of the 2008 financial crisis – durable financial rationality (Kädtler, 2014) or capital market orientation (Faust *et al.*, 2011). These rationalities guide the activity of all parts of management, for example with regard to the choice of profitable investment projects or with regard to human resources policies.

Financialisation also includes changes within the financial sector itself (b), away from the traditional transaction banking towards the increased focus on investment banking as well as the trading of securities via shadow banks (Kessler and Wilhelm, 2014). These activities become particularly controversial when related to the financialisation of the environment and natural resources, for example with regard to speculative trading of food or of agricultural land (Ouma, 2014).

In the context of the establishment and the crisis of the Eurozone, the influence of financialization on economic statecraft has become obvious (c). The Italian state, for example, has developed derivatives-based strategies during the 1990s, in order to get access to the Economic and Monetary Union (Lagna, 2016).

Finally, financialisation also includes the incorporation of private households in financial markets (d). In particular, this takes place via the utilisation of old age insurance and the increasing importance of real estate investments. (Mertens, Meyer-Eppler, 2014). Whereas most private households traditionally were not exposed to the fluctuations of financial markets, the increasing importance of mortgages and of their securitization has changed this situation.

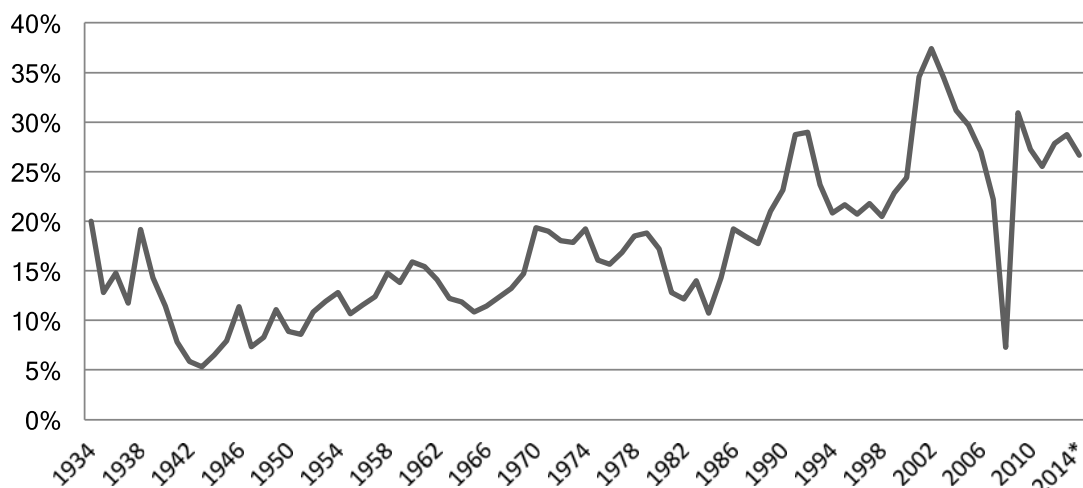
All in all, the process of financialisation belongs to the most important changes in economies, societies and politics during the last decades (Heires and Nölke, 2014a, 2014b). While complementary to the rise of neoliberalism, it is analytically distinct if the latter is more narrowly understood as a political programme for the deregulation of the economy and for the dismantling of the welfare state (Biebricher, 2012). Given the broad and multi-faceted character of the financialisation process, it is important to develop some measures for grasping its variance over time and between countries. Otherwise it risks becoming a catch-all phrase for modern economic and political developments, similar to broader notions of neoliberalism (Christophers, 2015).

2. FINANCIALISATION IN EUROPE: ITS EXTENT AND ITS VARIANCE

The process of financialisation began in the US but has massively influenced society, politics and the economies in Europe as well. However, there are obvious and distinct differences in the degree and pattern of financialisation between the national economies of the European Union (Lapavitsas and Powell, 2013; Stockhammer *et al.*, 2014). Therefore, we should not only refrain from making too general propositions with regard to the extent of financialization in the member economies of the European Union, but also need to study the reasons for this variegation.

In order to make somewhat more precise statements about the extent and variance of financialization, we need a measure for the latter. However, the measurement of financialisation is rather complex, due to the comprehensive character of the potentially relevant phenomena and the methodological problems, for example for covering the contribution of the financial sector to gross domestic product (Nölke, 2014) and for the availability of empirical data. Correspondingly, we may need to apply different data for the measurement of the long-term pattern of financialization and for its country-specific variance.

FIGURE 1: FINANCIAL PROFIT AS A SHARE OF TOTAL DOMESTIC PROFIT US, 1934-2014)



Source: Bureau of Economic Analysis (bea.gov), Table 6.16 Corporate Profits by Industry, Profits are with IVA and CCA_{adj}.

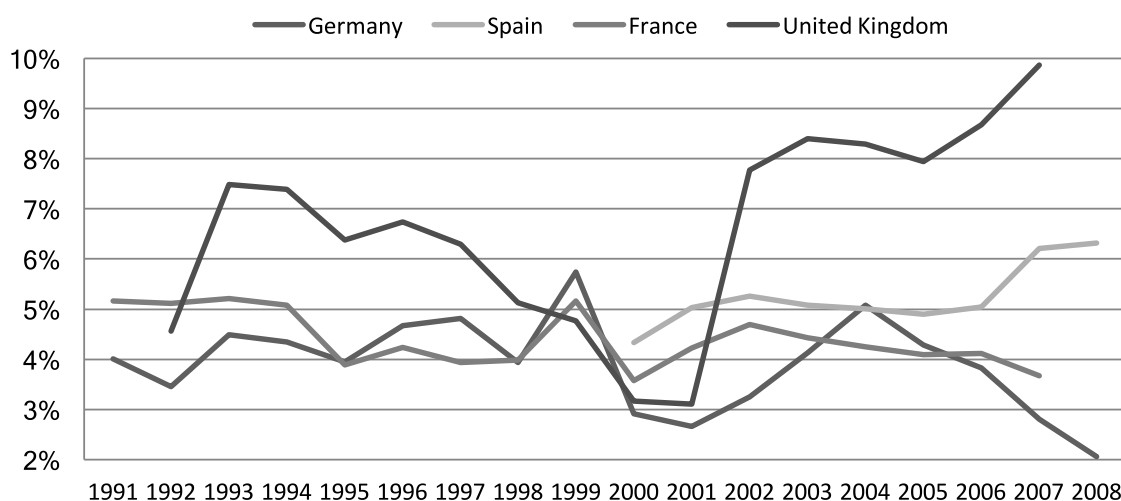
Variables: domestic industries, financial.

The best empirical data on long term developments of financialisation are available for the US economy, as most discussions of financialization focus on the latter. Long-term historical data on the US economy demonstrate the shift of profits from industry and services to finance (figure 1). This data demonstrates that the relatively high share of profits in the financial sector was considerably reduced during the Second World War and the immediate post-war period. After a long phase of stagnation it started to rise again since the 1980s, with the highest share shortly before the bursting of the dotcom bubble. The increase of remuneration in the financial sector – not covered in the figure – continued to rise after 2001, although more

gradually (Philippon and Resheff, 2012). Even with the share of financial profits in total profits strongly reduced - particularly during and after the 2008 financial crisis – from a historical perspective it is obvious that today's US economy continues to be characterized by a high degree of financialisation. Moreover, the relative share of the financial sector in total profits does not reflect the full extent of financialisation. In addition, we need to cover the movement of profits within the non-financial sector (particularly within manufacturing) towards income-based financial activity. If we take these changes into account, the rising importance of financialisation is even more pronounced than indicated in the intertemporal comparison of figure 1 (Krippner, 2011: 34 ff.; Lin and Tomaskovic-Devey, 2013: 1284ff.).

As regards the variance of financialization patterns in Europe, data availability is more limited, particularly with regard to long-term data. Still, it becomes obvious that there is a variegated development of financialization in Europe. For example, the over-all degree of financialisation is much lower in Germany than in the United Kingdom, even if patterns may be different in specialized market segments. One measure of financialization where country-specific data are available, if only until 2008, is the financial sector share of gross operating surplus (figure 2). Whereas the financial sector in the United Kingdom has a very high share on total gross operating surplus, the role of the financial sector in Germany is much less pronounced and only amounted to one quarter of the value of the UK in 2007. Subsequently, the share of the financial sector within gross operating service even further decreased in Germany and also had a much lower level than in France and Spain. In contrast to the United Kingdom, where the City of London has increasingly become prominent within the national economy, Germany still has a much higher share of manufacturing, particularly with regard to small and medium scale enterprises. Moreover, even within manufacturing, the financial market rationality has not been implemented as comprehensively as in the Anglo-American countries (van Treeck *et al.*, 2007; van Treeck, 2008) or in France (Codechot, 2012; Alvarez, 2015).

FIGURE 2: FINANCIAL SECTOR SHARE OF GROSS OPERATING SURPLUS IN SELECTED EU ECONOMIES



Datenquelle: OECD STAN Database for Structural Analysis (ISIC Rev. 3), GOPS Gross operating surplus and mixed income.

Variablen: CTOTAL TOTAL, Financial Intermediation.

Another striking feature of financialisation in Europe is the remarkably high degree of financialisation in Spain, at least before the 2008 financial crisis. Spain, like other southern European economies, has encountered an increasing degree of de-industrialisation in the last decade. The introduction of the Euro was followed by the elimination of risk devaluation and consequently Spain encountered a credit-driven boom, particularly with increasing expenditures for consumption and real estate. This boom went hand in hand with a strongly increasing wage level, whereas wage increases in Germany were much lower (Höpner, 2013: 10). Since an external devaluation of the currency was no longer possible, this development led to a strong divergence of the development of unit labour costs and Spanish industry suffered a considerable loss of competitiveness. At the same time, the importance of the financial sector has grown, in particular with regard to real estate. This has led to a re-structuring of the Spanish economy, similar to the situation in other Southern European economies (Becker, 2014; Gambarotto and Solari, 2014, Stockhammer *et al.*, 2014).

This short comparison of four core economies of the Eurozone demonstrates that we are observing country-specific patterns of financialisation. In addition, we can also observe specific transnational dependencies with regard to financialisation in Europe (Nölke, 2016: 153-155). First of all, this relates to the role of the United Kingdom (more specifically: the City of London) as an economy that has specialised on the management of financialisation. Moreover, we need to highlight the symbiosis between countries such as Germany and Spain (at least before the outset of the Eurozone crisis) where the German balance of payment surplus *inter alia* has been invested in countries such as Spain and helped financing the credit-driven boom in these countries after the introduction of the Euro. This boom did not only lead to an increased demand for German products but also to an increasing loss of price competitiveness of the Spanish economy, and thus further enhanced the disparities of the financialisation process within the European Union. This development had particularly negative social repercussions in Southern Europe.

3. FINANCIALISATION AND ECONOMIC INEQUALITY

The studies of Thomas Piketty (2014) demonstrate the long-term process of increasing social and economic inequality in Western industrialised countries since the 1970s. Two of the features of increased inequality highlighted by Piketty directly relate to the process of financialisation, namely the divergence of salaries, in particular in favour of managers and large enterprises, and even more importantly, with regard to financial assets, where he has found a stronger increase of return on capital if compared with general growth rates (Piketty, 2014: 43ff.). Similarly, Piketty's account of economic development – a high degree of inequality in the 19th and early 20th century, a period of lower inequality in the “thirty golden years” after the Second World War and another

period of strongly increasing inequality over the last decades – indicates parallel patterns between the historical development of financialisation (see the low degree of the latter during the three post war-decades and the increase since about 1980, as depicted in figure 1) and social inequality.

The strength of Piketty's analysis lies in its extremely impressive documentation of long-term empirical developments with regard to central aspects of social inequality. Less pronounced, however, is his analysis with regard to the determinants of the latter. Although there are many more determinants for inequality, important causal relationships between increasing financialisation and increasing inequality have been identified by studies in economic history, macroeconomics and economic sociology (Dünhaupt, 2014; Gordon 2014; Hein, 2015; Hein and Detzer, 2014; Kus, 2012; Lavoie and Stockhammer, 2014; Lin and Tomaskovic-Devey, 2013; Turbeville, 2015).

A first causal relationship between the increasing role of the financial sector and social inequality relates to income inequality. We have already documented the strong increase of profits in the financial sector, in particular in the US and the United Kingdom (figures 1 and 2). The average salaries in the US financial sector have strongly increased during the process of financialisation, and in 2014 have reached nearly five times the level of 1980 in nominal terms (Gordon, 2014). Hedge funds in particular have become a synonym for inequality (Fichtner, 2013). Anecdotally, the remuneration of hedge fund managers such as David Tepper (Appaloosa Management) with nearly 10 Million US dollars per day in 2014 has even been called into question in circles that usually are in favour of neo-liberal economic policies (FAZ, 6 May, 2014). Even in France, a country with moderately increasing financialisation (figure 2), with only 3 percent of employment in the private economy the financial sector is responsible for more than 50 percent of the strongly increased inequality between higher incomes (Godechot, 2012).

A second causal pattern relates to the non-financial sector of the economy (Dünhaupt, 2014: 11-14). Here, the increased importance of financial market rationalities as well as specific instruments such as share options, bonus payments and share buy-back-programmes have led to a strong increase of both return on capital and remuneration of higher management. At the same time, financial market rationality also operates against workers' incomes as the focus on the development of share prices exercises downward pressure on wages. Moreover, companies forego investments in production because financial investments appear to be more profitable with negative repercussions on economic growth and employment (Stockhammer, 2007). Moreover, increasing financialisation also erodes worker-friendly labour market institutions such as the protection against dismissal and comprehensive coverage by wage agreements (Darcillon, 2015). These effects are not only valid for exchange-listed companies. Since increasing shares of value chains are being relocated towards the supply industry, downward pressure on employment conditions and wage structures also affects those companies that themselves are not focused on the

maximization of shareholder value. Correspondingly, even these companies are affected by the erosion of established industrial relation systems (Haipeter, 2009: 58). According to quantitative studies, since 1970 financialisation has been responsible for about 50 percent of the decreasing share of labour in national income, substantially more than globalisation, technological change and institutional factors combined (Lavoie and Stockhammer, 2014; Lin and Tomaskovic-Devey, 2013).

A third and less documented causal path between financialisation and social inequality departs from private households. First of all, financialisation allows wealthy/well-off and well-informed households to gain a disproportional increase in income via capital investments. Second, financialisation allows low-income households much easier access to credit. These households appreciate this development because it temporarily allows them to maintain and finance their lifestyle in spite of decreasing real wages. However, in a situation of crisis this can lead to complete economic ruin as has become obvious during the sub-prime crisis in the US (Mertens and Meyer-Eppler, 2014). These processes do not remain limited to the US and the UK, but are increasingly at work in Germany (Mertens, 2015) and in Eastern and Southern Europe.

4. FINANCIALISATION AND FINANCIAL CRISIS

Whereas the mechanisms described above highlight negative social repercussions of financialisation in “normal times”, financialisation has also proven to be a catalyst of major economic crises, with further negative social consequences. Again, we can highlight a number of causal mechanisms leading from a high degree of financialisation to the likeliness of a major financial crisis (Heires and Nölke, 2011), although both a high degree of financialization and the subsequent economic crisis may also be understood – in a more long-term structural perspective – as outcomes of contradictions of advanced capitalism (Foster, 2008).

First, financialisation replaces rising wages as demand basis for continuous growth by credit-based growth. Whereas private households previously were able to maintain their level of consumption based on rising wages, in financialised economies the stagnation of wages is compensated by increasing wealth based on financial investment. Households increasingly invest into shares or investment funds, or the acquisition of credit-based real estate. This mechanism goes hand in hand with the increasing indebtedness of private households which does not pose a problem as long as shares or housing prices continue to rise. Increasing investment in financial markets thus proves to be a replacement of previous wage rises as driver for economic growth (Stockhammer, 2007). This process can continue for many years as the long boom periods in highly financialised economics such as the US and the UK have demonstrated. However, in the long run, the increasing indebtedness of private households proves to be a problem, given the fact that this process cannot continue forever.

Second, and relatedly, financialised economies are characterized by repeated boom and bust cycles, since the speculative increase of asset values is core to accumulation based on financialisation. In order to create growth in financialised economies, investors continuously need new investment opportunities. The focus of those investments can range from shares in technology companies to real estate or agricultural products. Whereas the increased valuation of the assets that are core to these processes of financialisation may be realistic or even productive in early stages of a boom cycle, this direct linkage is becoming more and more tenuous (Aalbers, 2008: 149). Increasing doubts about an adequate valuation finally leads to a bust of this cycle. Financialised economies thus can witness cycles of high growth rates and increasing asset valuation, but repeatedly end in crises where most of these asset values will be destroyed. Whereas boom and bust cycles based on speculation have been an established fact of economic development over the centuries, the severity of these cycles is becoming much more pronounced, given the distinct growth of financial markets under financialisation. This has become abundantly clear during the 2008 economic crisis when a limited phenomenon on US real estate markets led to a massive financial crisis.

The linkage between financialisation and financial crisis is also supported by a number of institutional mechanisms. The shift of accounting standards from historic-cost to fair-value or mark-to-market accounting may serve as an illustration for one of these institutional mechanisms (Nölke and Perry, 2008). This mechanism does not only lead to a strong increase of the value of financial assets during a boom phase but also contributes to the severity of the bust phase. The assessment of financial assets according to market prices during the boom phase - in comparison to an assessment according to historical costs - leads to a much higher valuation and therefore contributes to the strong increase of financial sector profits during the boom phase. The same mechanism leads to a massive discount on the value of financial assets during a bust phase. Mark-to-market accounting standards thus have a pro-cyclical effect during financial crises. This mechanism becomes even more severe given the fact that banks and other financial investors have to sell financial assets in order to compensate for strongly decreasing asset values, and thus aggravate downturn prices for these assets. Correspondingly, mark-to-market accounting standards have been one of the institutional mechanisms that have paved the way towards an expansion of financialization, but also have aggravated the severity of the recent global economic crisis, with massive social consequences.

5. THE POLITICAL PATHWAY TOWARDS FINANCIALISATION

The process of financialisation has considerable repercussions with regard to the idea of a more equal and just "Social Europe". The negative re-distributive effects of increasing financialisation - including the disastrous consequences of financial crises - are difficult to reconcile with the notion of a robust pro-

tection against the unwelcome effects of globalisation. Correspondingly, there are good reasons for considering a reversal of the financialisation process, to prevent these negative social consequences in the future. In order to do so, we first need to clarify where financialisation comes from.

The focus here is not on the long-term structural tendencies of capitalism, but on the proximate causes of financialization. Even if technical developments in the field of information technology and academic developments in financial mathematics have supported the deepening of financialisation, the latter process in this perspective can mainly be explained by *political* decisions. These decisions have been taken at the national, European and global level since the late 1960s. They relate first to the liberalization of cross-border capital flows, second to the liberalization of capital markets at the national level, and third, to the integration of additional societal and economic realms into the accumulation logic of the financial sector.

The degree of liberalisation of cross-border financial flows becomes obvious if we compare the nearly completely closed national capital markets of the Bretton Woods system during the 1950s and early 1960s with the contemporary situation. Today, the foreign exchange market has become the largest market globally. For example, in April 2013 the daily global turnover in foreign exchange markets amounted to an average of 5.3 trillion US dollars (Deutsche Bundesbank, 2013). After the creeping erosion caused by the evolution of the Eurodollar markets, the Bretton Woods system, which had strongly contributed to controlling trans-border flows, was abolished in 1973. Subsequently, the industrialised countries completely stopped capital controls.

In the period after the Second World War capital markets at the national level were strictly regulated, similar to cross-border financial flows. Both interest rates as well as types of credits and debtors were mandated by law. Banks had very limited leeway in making their decisions, banking was “boring”. In many countries different forms of banking activity were strictly separated, in particular retail banking and investment banking. Similar to the limitations on cross-border financial flows, these limitations increasingly have been abolished since the 1970s.

Since the 1980s, additional economic and societal realms have been integrated into the logic of financial markets. Political decisions that have supported this process inter alia include the creation of a market for corporate control (in Germany for example the dissolution of the *Deutschland AG* by changes in tax laws), stock exchange listings of formerly public enterprises (for example the postal service in Germany) and tax support for capital market-based pensions (in Germany for example the so called “Riester-Rente”).

The European Union has played an important role with regard to all three dimensions of the deepening of financialisation, even if the original decisions had been taken at the global level (the end of the Bretton-Woods system), and at the national level (financial market liberalisation, extension of the financial sector). Whereas the European Union played a negligible role compared to the national level until the 1980s, it has become the main driving force facilitating financialisation in Europe since the 1990s. More specifically, “the European

Union" usually refers to the European Commission and the representatives of the executives of the EU member states (e.g. ministries of finance), with a very strong input by financial sector lobbying that is more powerful at the EU level than at the national level of most member states (Young 2014). As highlighted above (section 2), this process has not led to a uniform pattern of financialization across Europe, but has led to variegated outcomes, depending on the interactions with the diverse types of capitalism within the Union (Stockhammer *et al.*, 2014; Nölke, 2016).

Although free movement of capital had already been incorporated in the Treaties of Rome, it was strongly limited in most member states until the 1990s, based on national protection clauses. However, the coming into force of the treaty of Maastricht in 1994 interdicted these limitations. Correspondingly, the legal foundations of the Union are tilted in favour of the liberalisation of cross-border financial flows. In addition, the introduction of the Euro during the first decade of the new millennium has led to a process where savings by rich households as well as companies in Germany were increasingly invested in other European countries like Spain, thus enhancing the increasing financialisation process in these countries (Grüning *et al.*, 2015: 4).

The European Union was also definitely one of the most determined driving forces with regard to further liberalisation of the financial markets in Europe, thereby explicitly focusing on the US model (Posner and Véron, 2010). Even after the 2008 financial crisis it did not enforce fundamental changes in the liberal regulation of financial markets at the global level, but rather focused on measures for the stabilisation of existing liberal rules (Bieling, 2014; Mügge, 2014). Moreover, the European Union contributed towards deepening financialisation not only through financial market regulation in the narrow sense but also through the utilisation of competition law, for example with regard to the liberalisation of public banking in Germany (Seikel, 2013).

The European Union also actively pursued the implementation of the logic of financial markets in additional economic and social sectors, as far as its legal competences allowed it. Particularly important was the deepening of market for corporate control, in particular via the harmonisation of company law and the takeover directive (Horn, 2012), the dissolution of golden shares (Werner, 2013) and the capital market-based accounting standards discussed above. In particular in Southern Europe, the European Union also has deepened financialisation by its focus on large scale privatisation measures of social infrastructures, given that these privatisations usually were followed by listings on stock exchanges (Deckwirth, 2008).

6. POLITICAL OPTIONS FOR DE-FINANCIALISATION IN EUROPE

In spite of the notion of a "Social Europe", the European Union has massively contributed to a deepening of the process of financialization, with all of its negative social consequences. If we want to reduce financialisation, we

need to focus on the decisions that have increased financialisation during the last decades (see section 5 above). De-financialisation thus should focus on the management of cross-border capital flows, the systematic control of financial markets and on the imposition of limits on the reach of financial markets. Subsequently, we will discuss the most important political options and compare these options with the current activities of the European Union, i.e. its legislative process, as managed by Commission, Council and Parliament. We will demonstrate that the European Union is currently striving for a deepening of financialisation rather than decreasing the financialisation process.

A first measure of de-financialisation would be the management of cross-border financial flows in order to decrease the volatility of the latter, to limit the structural influence of financial markets on economies, societies and politics and to make sure that financial market investments are being taxed properly. Traditionally, capital controls are the most widely used measure for these purposes. Large emerging markets such as Brazil, China and India use these controls in order to limit their exposure towards speculative financial flows (Dirckx, 2014). Within the European Union, however, capital controls are interdicted since they limit the freedom of capital. Only in a situation of emergency, the European law allows for capital controls, as it has been the case in Cyprus and Greece recently. Alternatively, a financial transaction tax would be suitable in order to measure and regulate capital flows. Indeed, after the 2008 financial crisis a couple of European Union members have started an initiative for the introduction of a financial transaction tax at the European level. However, the deliberations within this initiative only include 11 countries, they are slow and only cover a selective amount of financial flows, certainly not a comprehensive Europe-wide management of these transactions (Wahl, 2014).

A second suitable focus of de-financialisation would be a systematic control of financial markets. An efficient control of financial markets is indispensable in order to reduce the likelihood of bank bailouts and prevent financial actors from implementing their ideas of high returns and executive remuneration in the real economy and society. A strict regulation of financial markets thus could provide a double dividend. On the one hand, it could lead to financial stability, on the other hand it could reduce inequality, as demonstrated with the historical example of the US (Moss, 2010). Since the 2008 financial crisis the European Union has started a series of more than 40 initiatives to stabilise financial markets (European Commission, 2014). Apart from the fact that the focus of these initiatives is the avoidance of additional financial crises and the strengthening of the efficiency of financial markets, and not the decrease of social inequality and instability caused by financialisation, these measures are far from sufficient with regard to steps that would be necessary for fundamental de-financialisation. Some of these steps, such as the creation of a Capital Market Union, even enhance financialisation.

European Union measures include first and foremost the creation of a European system for financial supervision, including European agencies with autonomous powers. A second core element is the creation of a European

Banking Union (EBU), a Single Supervisory Mechanism (SSM) for banks and a Single Resolution Mechanism (SRM) for banks that have to be restructured. In addition, there are plans for the creation of a common deposit protection. However, no comprehensive solution for this issue has been presented yet. In addition, the European Union has implemented the Basel III standards for banking regulation in the form of the Capital Requirements Regulation (CRR) and Capital Requirement Directive IV (CRD IV), as well as the Solvency-II regulation for risk stabilization of insurances. Measures aiming at a reduction of extreme volatility in financial markets include activities for the regulation of hedge funds and private equity (Alternative Investment Fund Manager Directive), rating agencies, short selling as well as markets for financial instruments (European Market Infrastructure Regulation, two Markets in Financial Instruments Directives, Central Securities Depositories Regulation). Ongoing measures include the regulation of shadow banks, including money market funds, the restructuring of banks (with the possibility of separating commercial and investment banking) and measures with regard to benchmarks for the avoidance of market manipulations, for example with regard to the LIBOR.

Whether these measures will be sufficient for avoiding future financial crises remains to be seen. It is also beyond the scope of this contribution to discuss in detailed ways the contributions and shortcomings of these initiatives. So far, long-standing observers of financial markets are highly sceptical of the effectiveness of current regulatory measures with regard to future financial stability (Admati and Hellwig, 2013; Haldane, 2013; Helleiner, 2014; Moschella and Tsingou, 2013). From the perspective of de-financialisation as developed in this contribution, however, they are clearly inefficient. De-financialisation would imply re-focusing the financial sector on the highly stable provision of traditional banking services. This would include the interdiction (not only the registration) of hedge funds and shadow banks as well as a ban on a large number of financial instruments and proprietary trading activities of banks. Similarly, the measures are probably not sufficient for the stabilization of banks, neither with regard to capital requirements, nor with regard to the financing of funds for the restructuring of banks. Even if European decision-making on structural reforms of banks has not been concluded yet, it clearly will not include sufficient regulation for the de-concentration of very large banks (too big to fail) and limiting their interactions (too interconnected to fail). However, these measures would be important for a reduction of financialisation, also with regard to the strong political power of the financial sector (Gilens, 2014). In contrast, current plans of the European Union for the promotion of securitization and for improving the ability of small scale enterprises to access financial markets in the context of the creation of a Capital Market Union (European Commission, 2015) rather focus on deepening financialisation. Even many banks (e.g. in Germany savings and loan banks, and cooperative banks) as well as small and medium scale enterprises are highly sceptical with regard to these measures (FAZ, 3 March 2015).

Also with regard to limiting the extension of the financial sector in other sectors of the economy and society - the third focus of de-financialisation - we

cannot identify any turning away from financialisation at the European level, for instance when it comes to limiting share options for managers or restricting share buyback programmes. In contrast, recent measures by the European Union rather support further financialisation of those countries that are being hit strongly in the Eurozone crisis by prescribing comprehensive privatisation and the reduction of public expenditures, for example for pension finance (Bieling, 2013; Ebner, 2014). Correspondingly, the process of forcing private households to invest in financial markets in order to safeguard their standard of living after retirement will rather be deepened. Similarly, current proposals for establishing a Capital Market Union will rather deepen the process of financialization through the securitization of private household debt and mortgages.

7. FINANCIALIZATION AND THE POTENTIAL OF A “SOCIAL EUROPE”

Departing from the notion of a “Social Europe”, as a protection against the harsh winds of globalization, we first have given an overview on the various facets of financialisation, before highlighting its variance in different European economies. Based on this grasp on the financialisation process, we have subsequently studied its social consequences, both in “normal” times and during financial crises. This assessment has led to the conclusion that we have to reverse the process of financialisation, if we want to create more equal and just societies in Europe.

In order to identify options for de-financialisation, we have highlighted the political decisions that have led to financialisation in the first place. The European Union has been identified as a prime driver for the deepening of financialization. Moreover, a comparison of the most important options to reverse the financialization process with recent EU decision-making has demonstrated that the Union rather intends to deepen financialization than to reverse it, e.g., by creating a Capital Markets Union. Thus, the notion of a “Social Europe” is not justified, at least with regard to financialization.

This is an unwelcome finding. An important pre-condition for creating a more equal society in Europe is de-financialisation. The European Union, in principle, would be the best-suited institution for guiding initiatives in this direction. A unified regulation of financial flows and financial markets at the European level would minimize regulatory arbitrage, one of the main problems of an effective regulation of financial markets (Thiemann, 2014). Moreover, the European level holds the legal competence for many economic policy measures that are relevant for a decrease of financialisation. However, in practice, this perspective is unrealistic, legally, institutionally and politically.

With regard to the legal aspects, the basic norm of freedom of capital, as already contained in the Treaties of Rome, sets the focus of the European Union on deepening financialisation. Restrictions on trans-border capital mobility, for example, are not permitted anymore, except for extreme emergencies (as in case of the Greek crisis).

In institutional terms, in particular the European Commission and the European Court of Justice have been the main drivers of liberalisation policies in the past. Very often, liberalization initiatives stumbled in the Council and or Parliament, but still have been pursued based on complaints by the Commission and judgements of the Court (Höpner and Schäfer, 2008). Given this institutional baggage, it is highly unlikely that these institutions would now become prime forces for limiting or even reversing the liberalization of financial markets.

Politically, power relations at the European level, particularly during the implementation phase of legal norms (Young 2014), are strongly dominated by the lobbying power of financial market actors, clearly more strongly than on the national level, even if on the latter mobilisation against financialisation is remarkably limited (Callaghan, 2014). Moreover, the heterogeneity of the member states with regard to their degree and pattern of financialisation, as documented in section 2 above, poses strong political limits towards fundamental de-financialisation. Even after Brexit, countries with a major financial sector, such as Ireland, Luxembourg and the Netherlands, will seek to prevent any EU decision to drastically reduce the role of finance.

In the foreseeable future, given these findings, only the national level in selected member states may potentially provide a realistic point of departure for de-financialisation initiatives, mirroring the situation for other progressive economic policies (Höpner, 2012; Nölke, 2013; Streeck, 2014). At the EU level, a number of obstacles will prevent any meaningful step towards reigning in the financial sector. Here, financialisation takes precedence over social protection.

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